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SUBJECT: Egypt: Political-Economic Update

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NESA M#86-20049

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Central Intelligence Agency



Washington, D.C. 20505

## DIRECTORATE OF INTELLIGENCE

7 April 1986

Egypt: Political-Economic Update [REDACTED]

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Summary

The Mubarak regime has weathered the recent police riots, but more troubles loom on the horizon. If Cairo does not develop an effective strategy for handling Egypt's myriad problems, opposition activity will intensify. Meanwhile, basic economic indicators point to a further erosion of Egypt's external financial position. [REDACTED]

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Egypt is going through a period of uneasy calm. Having survived the February police riots as a result of strong military backing, President Mubarak is trying to project an image of "business-as-usual." His opponents and the broad populace are probably expecting some major policy initiatives. Mubarak's failure in the next few months to break his image of cautious ineptness, however, is likely to reinvigorate the opposition. [REDACTED]

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Signs of a long, hot summer already exist. Last week, students in Asyut--a hotbed of Islamic fundamentalism--defied police demands to remove Islamic posters. In the ensuing melee, one student was shot. Mubarak's decision to evacuate to Cairo the wounded student mollified the crowds for the moment. New disturbances are likely to erupt if the wounded student, who remains in critical condition, dies. [REDACTED]

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This memorandum was prepared by [REDACTED] the Egypt-Sudan Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. Information as of 7 April 1986 was used in its preparation. Questions and comments should be directed to Chief, Arab-Israeli Division, [REDACTED]

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### Taba Dispute

Egyptian and Israeli negotiators are half-heartedly continuing negotiations over the disputed Taba territory. The negotiating teams meet alternately in Cairo and in Israel to work out details for submitting the dispute to arbitration. Tel Aviv wants to accelerate the normalization of relations--including a summit meeting--but Cairo is dragging its feet until all arbitration arrangements are completed. [REDACTED]

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Points of contention include arrangement of the arbitration process, selection of a neutral judge, and specific questions for arbitration. These issues could pose significant problems to both parties, suggesting that the Taba dispute is far from disappearing from the Egypt-Israel agenda. [REDACTED]

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### Economic Prospects

Basic economic indicators point to further erosion of Egypt's external financial position. Petroleum revenues are likely to decline to \$1.2 billion, or roughly one-half of last year's earnings. Other major sources of foreign exchange--especially worker remittances--also are headed downward. Baghdad's recent decision to reduce the large expatriate labor force in Iraq will result in the expulsion of as many as 300,000 Egyptian workers over the next several weeks. Many of the 400,000 who remain will face substantial wage cuts and further restrictions on exporting capital. Tourism also appears unlikely to recover from the combined effects of renewed terrorism in the Middle East, the February police riots, and growing US/Libyan tension. [REDACTED]

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The reform measures announced by the government in late March fall considerably short of what is required to deal with the economic crisis. Most of the proposed changes, largely tax increases directed at the middle class and some customs reforms will, at best, restrain the growth of government budget deficits; they will not effectively address the more serious balance of payments problem. Among the glaring omissions of this reform package are:

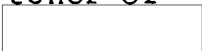
- No mention of any progress toward a unified exchange rate.
- No specific measures to curb imports or boost exports by undertaking structural reform of the subsidy system or revamping the inefficient public sector industries.




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-- No significant energy price increases.

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The government has left open the door for further and perhaps more far reaching reforms in coming months. The current tenor of Cairo's thinking on economic reform is not encouraging. 

Mubarak's adamant refusal to consider entering into a serious dialogue with the IMF/IBRD represents a major mistake and one that could spark a financial crisis later this year. The foreign banking community's confidence in Egypt's ability to service short-term debt could erode to such an extent that it would trigger foreign banks into cutting their short-term lending to Egypt. If this occurs, Cairo will be hard pressed to finance immediate import needs and a full blown economic crisis will be at hand. 

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